

Surety Bond Guarantees For Small Businesses



If your small construction, service or supply company bids or performs projects requiring surety bonds, the U.S. Small Business Administration has a program that could help make you more competitive.

Small business contractors and manufacturers can overcome challenges they face in winning government or private contracts by using the SBA's Surety Bond Guarantee Program. A surety bond is a three-way agreement between the surety company, the contractor and project owner. The agreement with the SBA guarantees the contractor will comply with the terms and conditions of the contract. If the contractor is unable to successfully perform the contract, the surety assumes the contractor's responsibilities and ensures that the project is completed.

The SBA Surety Bond Guarantee Program covers four types of major contract surety bonds:

- **Bid Bond** – guarantees the project owner that the bidder will enter into the contract and furnish the required payment and performance bonds.
- **Payment Bond** – guarantees the contractor will pay all persons who furnish labor, materials, equipment or supplies for use on the project.
- **Performance Bond** – guarantees the contractor will perform the contract in accordance with its terms, specifications and conditions.
- **Ancillary Bond** – bonds that are incidental and essential to the performance of the contract.

The overall surety bond program has two programs:

- **The Prior Approval Program** – The SBA guarantees 80 or 90 percent of a surety's loss. Participating sureties must obtain SBA's prior approval for each bond.
- **The Preferred Surety Bond Program** – Selected sureties receive a 70 percent guarantee and are authorized to issue, monitor and service bonds without the SBA's prior approval.

Program eligibility requirements

In addition to meeting the surety company's bonding qualifications, you must qualify as a small business concern, as defined by SBA. For federal prime contracts, your company must meet the small business size standard for the North American Industry Classification System (NAICS) Code that the federal contracting officer specified for that procurement. The small business size standard for heavy and civil construction is \$31 million in average annual receipts (except dredging, which is \$18 million, and land subdivision which is \$6.5 million). If the contract is for one of the specialty trades, the size standard is \$13 million. Size standards for providing services range as high as \$32.5 million in annual receipts.

For all other prime contracts and subcontracts for construction, service or supply (e.g., commercial, state and local) you qualify for surety bond assistance from the SBA if your annual receipts do not exceed the \$6.5 million standard.

In every case, an individual contract cannot exceed \$2 million and must require bonds.

The SBA has widened SBG eligibility for small business concerns performing construction or service contracts or subcontracts up to \$2 million in the declared disaster areas resulting from hurricanes Katrina, Rita and Wilma in 2005.



For those contracts, you are eligible for SBG assistance if you meet the small business size standard for the primary industry in which you, together with your affiliates, are engaged, or the \$6.5 million size standard set forth in §121.301(d)(1), *whichever is higher*. This applies regardless of whether it is a prime or subcontract, or with whom you contract. For more information about SBA's size standards (except for construction) see SBA's "What is a Small Business?" at <http://www.sba.gov/size/>.

How to Apply

The SBA does not directly bond a contractor. The contractor chooses a bonding agent who represents an SBA surety participant. An agent is an individual who has power-of-attorney to issue bonds on behalf of a surety. The contractor fills out the surety application and the required SBA forms, providing the agent with the required credit, capacity and character information. The agent then underwrites the application and decides whether to execute the bond with or without an SBA guarantee. Your SBA Surety Bond Guarantee Area Office keeps a list of surety agents who can provide you with SBA-required forms.

Costs

The charge or cost to a contractor for a surety bond is called the "bond premium." The SBA charges fees to both the contractor and the surety company. Rates are published periodically in the *Federal Register*. The SBA does not charge a fee for bid-bond guarantees.

In addition to the premium charged by the surety, the SBA currently charges the contractor \$6 per thousand dollars of the contract amount (or 6 percent) for the guarantee, and charges the surety 20 percent of the premium that the surety collects from the contractor.

For more information about the Surety Bond Guarantee Program, visit www.sba.gov/osg/.

SBA Surety Bond Guarantee Area Offices

Denver:

721 19th Street, Suite 426
Federal Building
Denver, CO 80201-0660
(303) 844-2607, ext. 261
(303) 844-6490 (Fax)

Atlanta:

233 Peachtree Street
Suite 1900 Harris Tower
Atlanta, GA 30303
(404) 331-0100, ext 615
(404) 331-0244 (FAX)

Seattle:

2401 Fourth Avenue,
Suite 450
Seattle, WA 98121
(206) 553-0961
(206) 553-6259 (Fax)

Philadelphia:

900 Market Street
5th Floor
Philadelphia, PA 19107
(215) 580-2720
(215) 580-2759 (Fax)

All SBA programs and services are offered on a nondiscriminatory basis